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UNCLAS SECTION 01 OF 03 PRETORIA 001605

SIPDIS

DEPT FOR AF/S/JDIFFILY; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/BARBER/WALKER/JEWELL
USTR FOR COLEMAN
LONDON FOR GURNEY; PARIS FOR NEARY

E.O. 12958: N/A
TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
April 22 2005 ISSUE

¶1. Summary. Each week, AmEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:
- International Economic Conditions More Important than Domestic for South African Monetary Policy;
- Russian Banks to Increase Services in South Africa;
- Rand Impacting Tourist Spending;
- SARB Wants Inflation Above 3 Percent;
- China, South Africa Seek Middle Ground on Increase in Imports; and
- Telkom Fees Hindering South African Growth.
End Summary.

INTERNATIONAL ECONOMIC CONDITIONS MORE IMPORTANT THAN DOMESTIC FOR SOUTH AFRICAN MONETARY POLICY
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¶2. Favorable global economic conditions, low real interest rates, a weakening dollar, accelerating growth and increasing commodity prices helped make South Africa and other emerging markets recipients of significant international capital. Rand strength has weakened domestic inflation pressures, allowing the South African Reserve (SARB) to reduce local interest rates. Buoyant confidence, credit extension, robust motor vehicle and retail sales growth and increasing house prices followed the interest rate cuts. In predicting South Africa's future interest rates, most analysts focus on domestic credit and demand rather than any international factors impacting the value of the rand. However, in a global world characterized by substantial capital flows, the SARB has limited control over South African interest rates and currency. As capital inflows increase, the South African currency becomes firmer, pushing down inflation to the point of threatening the lower end of the target band, forcing interest rate cuts, despite domestic inflation risk factors. South Africa is an open, small economy, and in understanding the rand's strength, international developments are more important. From a global perspective, it may be premature to expect an imminent turning point in South African rates. A major, sustained revival of the dollar, with the concomitant threat of capital withdrawal hindering the outlook for the rand, is probably not at hand. When the inward expansion of capital begins to recede within a context of domestic imbalances, it is possible that monetary policy aggression will once again surprise, but in the other direction, with rates moving faster upward, once again with apparent disregard for domestic demand conditions. Source: Based on a column by Jonathan Stewart, head of fixed interest at RMB Asset Management, Business Times, I-Net Bridge, April
¶18.

RUSSIAN BANKS TO INCREASE SERVICES IN SOUTH AFRICA
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¶3. Russian banks intend to open offices in South Africa to serve a growing number of Russian companies seeking to operate in South Africa, according to Russian Central Bank Deputy Chairman Konstantin Korishchenko. Korishchenko was accompanied by three Russian commercial banks and the Association of Russian Banks to the first meeting of South African and Russian banking authorities, which began at the South African Reserve Bank. The Russian banks visiting South Africa are Vneshtorgbank, Bank of Moscow, and Nomosbank. There is already one Russian state-owned bank with a representative office in South Africa, Vnesheconombank, which started doing business in the country in 2000. Russian interest in South Africa has grown in recent years. Russia's largest mining company, Norilsk Nickel, already holds 20 percent of Gold Fields, while Russian company SUAL is considering investing in a smelter in the Coega Industrial Development Zone in SA. Korishchenko said he would welcome any South African banks intending to follow Standard Bank by opening branches in Russia to serve the growing number of South African firms operating there. Banking Registrar Errol Kruger said

while Standard Bank had a successful Russian business, he would be "surprised" if many other local banks followed suit, as Standard Bank is very focused in terms of its niche market in resource banking and really understands that market. Source: Business Day and Business Report, April 19.

RAND IMPACTING FOREIGN TOURIST SPENDING

¶4. While the latest monthly tourism statistics to December 2004 from Statistics South Africa show that the number of tourists visiting the country has flattened out since 2001, there is evidence that the strong rand has resulted in foreign tourists spending less money in the country since 2003, according to Old Mutual Asset Managers SA (Omam). A tourist who had 1,000 euros to spend in 2002 came to South Africa with 10,000 rand. In 2003, however, that same 1,000 euros was worth only 7,150 rand - giving the tourist 2,850 rand (or 28 percent) less to spend. In 2002, South Africa attracted an estimated 700,000 "high-spending" tourists. These tourists were mainly middle-aged from first world countries coming to South Africa for their first or second time to stay in luxury resorts and hotels, and had a high amount of discretionary spending power. In 2005, the number of high-spending tourists was expected to decrease by an estimated 10 percent to 630,000 and their spending power is also expected to decrease, according to Brian Pyle, a portfolio manager at Omam. Figures in the February annual Satour tourism report confirm the sharp decline in average spending per tourist during 2003. Despite a 5.3 percent increase in the number of European tourists visiting the country during 2003, average spending fell by 15.9 percent to R11,377 ($1,504, using 7.56, the 2003 annual average rand per dollar) per person. Europeans comprise almost 20 percent of all foreign visitors to South Africa. Tourists from the Americas spent 35.9 percent less in 2003 compared with the year before, even though the number of tourists increased by 3.1 percent. Tourists traveling from Asia and Australia spent R10,141 ($1,341) rand per person in 2003 compared with R13,067 the year before, which is a 22.4 percent reduction. Source: I-Net Bridge, April 19.

SARB WANTS INFLATION ABOVE 3 PERCENT

¶5. The South African Reserve Bank (SARB) would rather have inflation closer to 6 percent, rather than fall below 3 percent, according to Coronation Fund Managers. According to the SARB's Deputy Governor Ian Plenderleith, the bank does not want CPIX inflation (which excludes mortgage interest rates) to fall below 3 percent, the bottom of the bank's inflation target. Plenderleith said the Monetary Policy Committee (MPC) had been concerned that high oil prices would dampen consumer demand, so it relieved the pressure by dropping interest rates by 50 basis points on April 14. However the MPC would monitor the second-round effects of high oil prices to see if it might have to increase rates in the future. Source: Business Report, April 20.

CHINA, SOUTH AFRICA SEEK MIDDLE GROUND ON INCREASE IN IMPORTS
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¶6. According to China's Ambassador to South Africa, Lu Qiutian, it is up to South African and Chinese policy makers to find solutions to problems associated with the surge of imports. As a result of a large increase in Chinese imports, thousands of jobs have been lost in the labor-intensive textile and footwear industries. Trade unions and manufacturers have called on the government to introduce protectionist measures to stem the inflow of goods. Lu said free trade was an important instrument in bringing prosperity and economic development, and his country was in full support of efforts by the World Trade Organization to open markets. The South African government has indicated that it intends to negotiate a trade agreement to gain preferential access for South African exporters to the $1.65 trillion (R10.36 trillion) Chinese economy before the end of this year. Talks will also be opened with India, which has a gross domestic product of $650 billion. Source: Business Report, April
¶20.

TELKOM FEES HINDERING SOUTH AFRICAN GROWTH

¶7. Research by Genesis Analytics about the cost of telecommunications services has confirmed that in some services, Telkom's fees are 400 percent above costs in other countries, serving as a hindrance to higher South African growth. The South Africa Foundation, which represents about 15 multinationals trading in South

Africa, shows that the fees imposed on Telkom's international leased lines are 400 percent higher than the average price from 14 comparable countries and three times higher than the 2nd most expensive country. Table 1 compares South African costs of selected telecommunication services. Source: Business Day, April 21.

Table 1

	Ranking (how expensive)	Number of times more expensive than cheapest price
Business ADSL	Most expensive	9.3
Domestic leased line	Most expensive	14.7
International leased line	Most expensive	31.4
Retail ADSL	Most expensive	8
ISP Fees	Fourth	5.1
Business (local calls)	Most expensive	10.7
Business (international calls)	Fifth	3.3
Business (mobile calls)	Second	22.7
Retail (local calls)	Fourth	7.9
Retail (mobile calls)	Fifth	10.7

	Per cent greater than average price
Business ADSL	147.7%
Domestic leased line	101.5%
International leased line	398.6%
Retail ADSL	139.2%
ISP Fees	43.5%
Business-local calls	198.5%
Business-international calls	-13.6%
Business-mobile calls	106.6%
Retail-local calls	79.3%
Retail-mobile calls	37.2%

FRAZER